

## Message Text

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PAGE 01 BONN 12862 01 OF 03 081819Z

46

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 PRS-01 PA-01 /085 W

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R 081749Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2019

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

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LIMITED OFFICIAL USE SECTION 01 OF 03 BONN 12862

DEPARTMENT PASS TREASURY, CEA AND FRB

E.O. 11652, N/A

TAGS: EFIN, GW

SUBJECT: THE ECONOMY AT MID SUMMER: DRIFT CONTINUES

1. SUMMARY. THE ECONOMIC NEWS AT MID SUMMER REFLECTS THE SAME DRIFT OF THE PAST MONTHS WITH SOME VARIATIONS. NEW ORDERS JUMPED, BUT THIS IS PROBABLY ONLY A RESPONSE TO GET UNDER THE INVESTMENT BONUS EXPIRATION WIRE OF JUNE 30. INDUSTRIAL PRODUCTION IN JUNE WAS UP SLIGHTLY  
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PAGE 02 BONN 12862 01 OF 03 081819Z

FROM MAY BUT FAR BELOW LAST YEAR'S LEVEL; 9 PERCENT LESS

WAS PRODUCED IN THE FIRST HALF OF 1975 AS COMPARED WITH 1974. UNEMPLOYMENT NEARED SIX PERCENT IN JULY AND SEEMS SURE TO CONTINUE TO GROW FOR SOME TIME. A BASICALLY NON-INFLATIONARY STIMULATION PROGRAM OF MODEST DIMENSIONS IS TAKING SHAPE WHICH WILL AID THE CONSTRUCTION INDUSTRY, BUT NOT MUCH ELSE. END SUMMARY.

## 2. INDUSTRIAL PRODUCTION.

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THE JUNE SEASONALLY ADJUSTED INDEX NUMBER FOR INDUSTRIAL PRODUCTION ROSE ONE PERCENT OVER THE PREVIOUS MONTH, WHICH IS CERTAINLY A POSITIVE INDICATOR IF NOT AN UNEQUIVOCAL REFLECTION OF A TURNAROUND IN THE ECONOMIC SITUATION. LOOKED AT DIFFERENTLY, A DIFFERENT PICTURE EMERGES FROM THIS PARTICULARLY VARIABLE STATISTICAL SERIES. THE SECOND QUARTER AS A WHOLE HAD 2 PERCENT LOWER PRODUCTION THAN THE FIRST QUARTER. ALSO, THE JUNE 1975 (NON-SEASONAL) INDEX NUMBER WAS 14.2 PERCENT LOWER THAN LAST YEAR THE SAME MONTH, WHICH IS THE LARGEST MONTHLY YEAR-ON-YEAR DECLINE SO FAR IN THE RECESSION. AND FROM THE LONGER PERSPECTIVE, INDUSTRIAL PRODUCTION IN THE FIRST HALF OF 1975 WAS 9 PERCENT BELOW THE SAME HALF LAST YEAR. THIS LENDS SUPPORT TO THE FEELING THAT THE HEAVILY INDUSTRIALIZED GERMAN ECONOMY HAD A REAL DECLINE IN GNP IN THE NEIGHBORHOOD OF AT LEAST FIVE PERCENT FOR THE SAME PERIOD.

## 3. NEW ORDERS

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ACCORDING TO EXPECTATIONS, NEW INDUSTRIAL ORDERS REGISTERED A BIG JUMP IN JUNE AS THE LAST CHANCE TO TAKE ADVANTAGE OF THE GOVERNMENT'S 7.5 PERCENT INVESTMENT BONUS WAS ABOUT TO RUN OUT. THE OVERALL INDEX (SEASONALLY ADJUSTED) ROSE 23 PERCENT OVER THE LEVEL OF THE PREVIOUS MONTH. A PARTICULARLY STRONG COMPONENT OF THE INDEX WAS THE DOMESTIC DEMAND FOR CAPITAL GOODS WHICH JUMPED 80 PERCENT IN JUNE OVER MAY. EVERYONE IS QUITE CAUTIOUS, HOWEVER, IN THE INTERPRETATION OF THIS DATA SINCE IT IS FELT THAT THE INVESTMENT BONUS FACTOR INTRODUCED A MOMENTARY DISTORTION IN THE JUNE FIGURES, LIMITED OFFICIAL USE

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PAGE 03 BONN 12862 01 OF 03 081819Z

AND THAT THE JULY AND AUGUST DATA WILL LIKELY REFLECT BIG DECLINES, COMPENSATING FOR THE FORWARD SHIFTING OF ORDERS THAT TOOK PLACE. IT IS ALSO SAID THAT MANY OF THE NEW ORDERS PLACED CONTAIN LIBERAL CANCELLATION CLAUSES SHOULD THE LONG-AWAITED UPTURN NOT MATERIALIZE, SO THAT THE TRANSLATION OF ORDERS INTO PRODUCTION IS NOT ASSURED. THERE MAY BE A TRUE RESURGENCE OF DOMESTIC DEMAND BEHIND THE JUNE ORDER DATA, BUT THE EVIDENCE IS

NOT CONCLUSIVE. WHAT IS SURE, IS THAT THE ORDERS FROM ABROAD HAVE CONTINUED TO DROP ACROSS THE BOARD, CONTINUING THE DOWNWARD TREND OF THE PAST SEVERAL MONTHS, WITHOUT ANY SIGN OF A LEVELING OUT.

#### 4. UNEMPLOYMENT

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A. NOT UNEXPECTEDLY, THE UNEMPLOYMENT SITUATION MARGINALLY WORSENERD IN JULY. THE SEASONALLY-ADJUSTED RATE ROSE BY 0.1 PERCENTAGE POINTS FROM THE PREVIOUS MONTH TO STAND AT 5.7 PERCENT, WHICH IS EQUIVALENT TO 1.32 MILLION JOBLESS. THE NON-SEASONALLY ADJUSTED DATA

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PAGE 01 BONN 12862 02 OF 03 081820Z

46

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LIMITED OFFICIAL USE SECTION 02 OF 03 BONN 12862

INCREASED BY A SIMILAR MARGIN TO A 4.5 PERCENT  
UNEMPLOYMENT RATE, OR 1,035,200 PERSONS OUT OF WORK.  
A CONTINUATION AND EVEN ACCELERATION OF THIS TREND  
TOWARD HIGHER UNEMPLOYMENT IS ANTICIPATED IN BOTH  
SEASONALLY AND NON-SEASONALLY ADJUSTED TERMS. THE  
SEASONAL LOW POINT FOR UNEMPLOYMENT SINCE 1971 HAS BEEN  
JUNE, SO THAT SEASONAL FACTORS AS WELL AS STRUCTURAL  
AND CYCLICAL DEVELOPMENTS SUGGEST NO IMPROVEMENT BUT  
RATHER A WORSENING IN THE JOB MARKET OVER THE NEXT  
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PAGE 02 BONN 12862 02 OF 03 081820Z

SEVERAL MONTHS.

B THE JULY DATA COULD, HOWEVER, BE CONSTRUED TO  
BE POSITIVE IN TWO ISOLATED RESPECTS. WORKERS COUNTED  
AS BEING ON SHORT TIME DECREASED BY SOME 150,000 TO  
650,000, WHICH IS THE LOWEST LEVEL SINCE LAST SEPTEMBER.  
ALSO, THE UNEMPLOYMENT RATE FOR FOREIGN WORKERS DROPPED  
FROM 6.5 TO 5.5 PERCENT. THE "GUEST WORKER" COMPLEMENT  
HAS BEEN REDUCED BY ABOUT A HALF A MILLION FROM ITS  
HIGH POINT OF 2.6 MILLION REACHED IN 1973. THERE IS  
SOME QUESTION AS TO HOW MUCH AND HOW FAST THIS ELEMENT  
OF THE LABOR SUPPLY CAN BE REDUCED TO ALLEVIATE THE  
PRESSURES OF HIGH UNEMPLOYMENT. IT IS NOT UNREASONABLE  
TO ASSUME THAT A LARGE BODY OF THEM - PERHAPS 1 TO 1.5  
MILLION - MUST BE CONSIDERED AS PERMANENT IMMIGRANTS  
IN GERMANY.

C. ONE EMBASSY CONTACT IN THE CHANCELLORY EXPRESSED  
CONCERN THAT SOCIAL UNREST WILL BE ON THE INCREASE  
BECAUSE THE 12-MONTH-LONG PERIOD OF ELIGIBILITY TO  
RECEIVE FULL UNEMPLOYMENT BENEFITS (68 PERCENT OF LAST  
NET INCOME) IS BEGINNING TO EXPIRE FOR EVER LARGER  
GROUPS OF JOBLESS PERSONS. EVEN THOUGH THE UNEMPLOYED  
IN THIS CATEGORY PASS TO ANOTHER SYSTEM OF COMPENSATION  
("UNEMPLOYMENT ASSISTANCE") IN THE FRG SOCIAL WELFARE  
NET, IT IS AT A LOWER BENEFIT LEVEL WHICH COULD MOTIVATE  
SOME PAINFUL BELT-TIGHTENING. NEVERTHELESS, GOVERN-  
MENT OFFICIALS HAVE URGED THE EMPLOYMENT OFFICES TO  
FACILITATE THE SUMMER VACATION TRAVEL PLANS OF THE  
OUT-OF-WORK BY BEING LENIENT IN THE GRANTING OF THE  
REQUIRED PERMISSION.

##### 5. INVENTORY SITUATION

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A MEASURE OF THE STATUS OF FINISHED  
GOODS INVENTORIES BASED ON A SURVEY OF INDUSTRY  
CONDUCTED BY THE MUNICH-BASED IFO INSTITUTE IS  
THE ONLY CURRENT SUCH INDICATOR AVAILABLE. IT  
DEMONSTRATES THAT STOCKS ARE STILL ABOVE NORMAL LEVELS  
FOR THE MAJORITY OF FIRMS CONTACTED. OF TWENTY-SIX  
INDUSTRIAL SECTORS SAMPLED, TWENTY-ONE FELL INTO THE  
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PAGE 03 BONN 12862 02 OF 03 081820Z

CATEGORY OF HAVING "TOO LARGE" INVENTORIES ON HAND.  
RETAIL AND WHOLESALE STOCKS WERE ALSO REPORTED IN THE  
EXCESSIVE RANGE. CONSEQUENTLY, IT MUST BE CONCLUDED  
THAT THERE STILL EXISTS A CONSIDERABLE INVENTORY CUSHION  
TO RUN DOWN BEFORE VOLUNTARY STOCK BUILDING MOTIVATES  
PRODUCTION ORDERS AND THEREFORE GIVES A BOOST TO THE  
LAGGING ECONOMY.

6. THE NEW ECONOMIC PROGRAM

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A. WHILE THERE HAS STILL BEEN NO FINAL DECISION ON  
A NEW GOVERNMENTAL ECONOMIC PROGRAM AND ALTHOUGH THE  
COUNCIL OF ECONOMIC ADVISORS SPECIAL REPORT AIMED AT

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PAGE 01 BONN 12862 03 OF 03 081823Z

46

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LIMITED OFFICIAL USE SECTION 03 OF 03 BONN 12862

LEGITIMIZING SUCH AN ACTION IS NOT YET OUT, NOR HAS THE CABINET MET ON THE ISSUE, IT IS A FOREGONE CONCLUSION THAT THERE WILL BE ONE, PROBABLY BY THE END OF AUGUST AND IN THE DM 4 - 5 BILLION RANGE. PART OF THE PROGRAM IS SAID TO INCLUDE DM 1.3 BILLION FOR THE MODERNIZATION OF OLD HOUSES. ALSO FORESEEN IS THE CONSTRUCTION OF 50,000 TO 100,000 NEW HOUSING UNITS AS WELL AS INFRA-STRUCTURE PROGRAMS SUCH AS KIDERGARTEN AND CANAL CONSTRUCTION. THE FEDERAL POSTAL AND RAILWAY SYSTEMS  
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PAGE 02 BONN 12862 03 OF 03 081823Z

WILL PROBABLY GET SOME DM 500 MILLION, AND AN UNSPECIFIED "JOB CREATION" PROGRAM IS SAID TO BE SCHEDULED FOR A LIKE AMOUNT. DM 3.9 BILLION IS AVAILABLE IN THE BUNDESBANK-HELD COUNTERCYCLICAL FUNDS FOR SUCH PURPOSES AS THIS PROGRAM; ANY COSTS IN EXCESS OF THIS AMOUNT WILL HAVE TO BE FINANCED BY BORROWING, EITHER BY THE STATES OR FEDERAL GOVERNMENT.

B. WHETHER A STIMULATORY PROGRAM OF THIS TYPE, WHICH IS NOT OF A VAST MAGNITUDE (LESS THAN 0.5 PERCENT OF GNP) AND IS RATHER NARROWLY FOCUSED ON THE CONSTRUCTION INDUSTRY, WILL HAVE ANY SIGNIFICANT MACROECONOMIC EFFECT IS QUESTIONABLE. IT WILL BE LAUNCHED, HOWEVER, WITH A MAXIMUM OF PUBLIC RELATIONS FANFARE IN HOPES OF QUIETING THE INCREASING CLAMOR FROM LABOR, BUSINESS, AND OPPOSITION FOR THE GOVERNMENT TO DO SOMETHING TO STIMULATE THE ECONOMY. NEVERTHELESS, AT THE SAME TIME WARNINGS ARE ALREADY BEING VOICED BY GOVERNMENT SPOKESMEN THAT NO MIRACLES SHOULD BE EXPECTED FROM THE NASCENT PROGRAM, WHICH IT IS STATED CANNOT POSSIBLY

COMPENSATE FOR THE DECLINE IN EXPORT DEMAND AND THE  
ABSENCE OF A BETTER INVESTMENT CLIMATE. ON THE OTHER  
HAND, IT WILL NOT BE A SIGNIFICANT FACTOR IN THE  
REKINDLING OF INFLATIONARY FIRES EITHER.  
HILLENBRAND

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## Message Attributes

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